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SUBJECT: BENEFICIARIES OF PANAMA'S OFF SHORE CORPORATION
INDUSTRY

REF: A. PANAMA 1793
[1](#)B. PANAMA 1586
[1](#)C. PANAMA 610
[1](#)D. 2005PANAMA2292
[1](#)E. 2005PANAMA1976
[1](#)F. 2005PANAMA848
[1](#)G. PANAMA 1187
[1](#)H. STATE 231006
[1](#)I. PANAMA 202
[1](#)J. PANAMA 280

This is Part II of a two part series on Panama's off-shore corporation scheme. Part I (Ref A) described the incorporation process. Part II discusses who benefits and how.

[1](#)1. (SBU) SUMMARY. Panama is the second most popular jurisdiction for forming offshore corporations (sociedad anonimas or anonymous societies) after Hong Kong. Offshore corporations can be used for asset protection, diversification, tax and currency control evasion, money laundering and terrorist financing. The establishment and maintenance of offshore corporations generate significant revenue to the legal industry and the GOP. Panama's corporation law is modeled on Delaware and presents the same challenges to determining the ultimate beneficiaries of the anonymous society. END SUMMARY

WHO USES OFFSHORE CORPORATIONS

[1](#)2. (U) Many wealthy individuals establish offshore corporations to avoid taxes, diversify their holdings avoid potential government confiscation in times of political uncertainty (e.g., Venezuela), evade currency controls (e.g., Colombia) and/or asset protection (e.g., anyone going through a divorce). Money management for wealthy individuals or private client services is a lucrative business for banks, generating profit margins of 50%. As of 2006, assets under management for wealthy individuals worldwide was approximately \$36 trillion. Citibank is the industry's largest private client banker with over \$100 billion under management for wealthy individuals.

[1](#)3. (U) In virtually all brochures offering private client banking services, confidentiality is a significant selling point. Two prominent Panamanian attorneys told EconOff that law firms are typically requested by banks outside of Panama

to establish Panamanian corporations. Since the request originates from a bank, the law firms view the bank as the client and do no further investigation, especially when the requesting bank is a large, well-known, international institution.

WHO MISUSES OFFSHORE CORPORATIONS

¶4. (U) The structures and procedures established to hide assets and income for tax evasion, risk diversification, political uncertainty, or other reasons are ideal for the laundering of proceeds from illegal activity. Two significant examples of Panama's attraction for money laundering are the cases of former Nicaraguan President Arnaldo Aleman (Refs B through F) and Colombian Rayo Montanyo (Ref G).

¶5. (SBU) Panama's structures and procedures can potentially be used for terrorist financing. Post's attempts to investigate the Panamanian activities of Ahmed Idris Nasreddin (Refs H through J) ended with the law firms that established his Panamanian corporations. Nasreddin's off-shore corporations were set up by a Panamanian law firm at the request of a European law firm. Both firms denied any knowledge of the company's directors or shareholders.

"FIRST, KILL ALL THE LAWYERS"

¶6. (U) Approximately 39,000 corporations were formed in Panama during 2005. With a price range of \$500 to \$2000, a minimum of \$19.5 million in fees went to the Panamanian legal industry. Additional fees ranging from a few hundred to several thousand dollars are earned from drafting ancillary documents such as voting trusts, shareholder agreements, and asset protection trusts. Many law firms serve as the resident agent and/or supply nominee directors for annual fees between \$150 - \$300. If only 150,000 of the approximately 350,000 Panamanian corporations pay for resident agent services, the minimum annual revenue comes to \$22.5 million.

¶7. (U) The GOP Attorney General's office told EconOff that resident agents and subscribers are usually protected from criminal or civil liability arising from the operations of a corporation provided they limit their conduct to forming the corporation and certain administrative functions, such as paying the annual franchise fees. The attorneys with whom Emboff spoke, said disreputable law firms will use clerical and support staff to serve as nominee directors and officers.

¶8. (U) Panama undertook a number of reforms in 2001 to remove its FATF and other black listing. Although originally part of the reform package, the elimination of bearer certificates and the prohibition against lawyers serving as directors of a corporation were dropped in the face of opposition by the Panamanian legal community and the International Lawyer's Association.

THE PUBLIC TROUGH

¶9. (U) Panamanian corporations pay an annual corporate franchise fee of \$250 for the first year and \$300 thereafter. During 2005, the Public Registry received \$30 million in incorporation and annual franchise fees, of which the GOP received

approximately \$17.5 million or 0.5% of its total 2005 budget of \$3.426 billion.

ULTIMATELY, PANAMA'S CORPORATION LAW DIFFERS LITTLE
FROM THE U.S.

¶10. (U) According to local attorneys, the creation of a Panamanian corporation is governed by the Panamanian General Corporation Law of 1927 and modeled after Delaware's corporation law. The creation and governance of a Panamanian corporation and a U.S. corporation is virtually identical. All state corporation laws provide for resident agents, or registered agents, who serve as the point of contact between the state and the corporation. Most states, particularly the most popular states of incorporation such as Delaware and Nevada, have no provisions which mandate the disclosure of shareholders.

¶11. (U) Legal contacts in Panama and the U.S. told Econoff registered agents in the U.S. many times do not have contact with the actual shareholders. Their principal contact is usually a law firm or a nominee incorporation service. In Delaware, many registered agents advertise that share ownership is kept confidential. Delaware does not require registered agents to maintain any information on shareholders. Delaware has considered laws requiring registered agents to maintain certain client information such as the name and address of a director, officer or shareholder. To date there have been no obligations imposed on registered agents in the U.S. "to know their clients."

COMMENT

¶12. (SBU) Post's interagency Illicit Finance Task Force coordinates the Mission's anti-money laundering activities. While no agency at post has identified terrorist finance activity in Panama, it is difficult

to determine what activities a Panamanian registered company is undertaking outside of Panama. Post is increasingly focused on the vulnerabilities posed by offshore corporations. We would welcome Washington's input regarding the U.S. experience in addressing this issue and how we might share useful lessons learned with the GOP to reduce Panama's vulnerability to money laundering and/or potential terrorist financing through offshore corporations.

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